

NEBRASKA LIFE AND HEALTH INSURANCE
GUARANTY ASSOCIATION

Financial Statements

December 31, 2004 and 2003

and

Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Nebraska Life and Health
Insurance Guaranty Association

I have audited the accompanying statements of financial position of Nebraska Life and Health Insurance Guaranty Association as of December 31, 2004 and 2003, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nebraska Life and Health Insurance Guaranty Association as of December 31, 2004 and 2003, and the results of its activities and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Walter L. Waltke

Certified Public Accountant

February 8, 2005

STATEMENTS OF FINANCIAL POSITION (Notes 1 and 2)

	Dec. 31, 2004	Dec. 31, 2003
ASSETS:		
Cash in checking account	\$ 376,977	\$ 151,437
Cash in money market fund	43,334	665,894
U. S. Treasury Notes at market value (Note 3)	3,234,741	3,142,500
U. S. Government Agency bonds at market value (Note 4)	4,150,021	4,867,783
Corporate bonds at market value (Note 5)	1,845,624	1,593,168
Accrued interest receivable on investments	88,944	80,795
Equipment – Cost	5,520	5,520
– Accumulated depreciation	(5,520)	(5,520)
TOTAL ASSETS	<u>\$9,739,641</u>	<u>\$10,501,577</u>
LIABILITIES:		
Accounts payable	\$ 1,219	\$ 994
Estimated claims payable (Note 6)	4,750,000	6,337,748
TOTAL LIABILITIES	<u>\$4,751,219</u>	<u>\$ 6,338,742</u>
NET ASSETS:		
UNRESTRICTED NET ASSETS:		
Class A net assets for general administration	\$ 194,346	\$ 191,544
Equipment net assets – Class A	0	0
Total Unrestricted Net Assets	<u>\$ 194,346</u>	<u>\$ 191,544</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Classes B and C net assets for specific insurance company insolvencies (Exhibit A-1)	\$2,319,673	\$ 1,532,564
Contingency reserve for future obligations (Note 7)	2,474,403	2,438,727
Total Temporarily Restricted Net Assets	<u>\$4,794,076</u>	<u>\$ 3,971,291</u>
TOTAL NET ASSETS	<u>\$4,988,422</u>	<u>\$ 4,162,835</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$9,739,641</u>	<u>\$10,501,577</u>

See accompanying notes to financial statements.

CLASSES B AND C NET ASSETS FOR SPECIFIC INSURANCE COMPANY INSOLVENCIES

	<u>12/31/04</u>	<u>12/31/03</u>
Class C 7 – First Columbia Life, Louisiana	\$ (15,335)	\$ (11,948)
Class C 11 – Knickerbocker Life, Texas	58,099	57,261
Class C 13 – Life of Indiana, Indiana	28,236	27,829
Class C 20 – Executive Life, California	(5,874,870)	(5,580,475)
Class C 21 – Mutual Security Life, Indiana	5,905,360	5,795,962
Class C 25 – Midwest Life, Louisiana	632,524	623,540
Class C 26 – Guaranty Security Life, Florida	2,469,290	2,235,836
Class C 27 – Mutual Benefit Life, New Jersey	275,786	271,436
Class C 29 – Inter-American Insurance, Illinois	612,818	604,351
Class C 30 – Andrew Jackson Life, Mississippi	(2,064)	(2,034)
Class C 31 – Great Republic Life, California	(2,533)	(2,497)
Class C 32 – Old Faithful Life, Wyoming	103,095	101,609
Class C 33 – Old Colony Life, Georgia	330,697	325,929
Class C 34 – New Jersey Life, New Jersey	56,195	55,385
Class C 36 – Pacific Standard Life, California	(13)	(13)
Class C 37 – Kentucky Central Life, Kentucky	1,042,009	886,255
Class C 38 – Consumers United, Delaware	(139,562)	(146,499)
Class C 40 – American Integrity, Pennsylvania	910,988	897,854
Class C 41 – National Heritage Life, Delaware	(106,355)	(103,691)
Class C 42 – Summit National Life, Pennsylvania	174,276	171,777
Class C 43 – Confederation Life, Michigan	(6,679)	(6,852)
Class C 45 – National American Life, Pennsylvania	353,418	147,786
Class C 49 – First National Life, Alabama	(1,320)	(1,210)
Class C 52 – American Standard Life, Oklahoma	(77,275)	(84,314)
Class C 53 – Professional Benefits Insurance, Texas	(3,325)	(3,277)
Class C 54 – Centennial Life, Kansas	(87,613)	(86,202)
Class C 55 – Universe Life, Idaho	(293,750)	(289,450)
Class C 56 – Fidelity Bankers Life, Virginia	(504,988)	(497,657)
Class C 57 – Statesman National Life, Texas	(6,113)	(8,642)
Class C 60 – First National Life Ins. Co. of America, MS (Thunor)	(303,709)	(316,932)
Class C 61 – International Financial Services Life, MO (Thunor)	(8,819)	(8,419)
Class C 62 – National Affiliated Investor Life, Louisiana	(17,863)	(17,570)
Class C 63 – American Chambers Life, Ohio	(1,428,058)	(1,405,084)
Class C 64 – Bankers Commercial Life, Texas	(28,715)	(31,327)
Class C 65 – Reliance Insurance Co., Pennsylvania	(8,317)	(13,002)
Class B 66 – Legion & Villanova Insurance Cos., Pennsylvania	(6,278)	(5,413)
Class B 67 – London Pacific Life, North Carolina	(1,709,564)	(2,047,738)
Total Classes B and C Net Assets for Specific Insurance Company Insolvencies	<u>\$ 2,319,673</u>	<u>\$ 1,532,564</u>

STATEMENTS OF ACTIVITIES (Notes 1 and 2)

	Class A	Classes B & C (Exh. B-1)	Total	
			2004	2003
REVENUES:				
Estate distributions		\$ 965,841	\$ 965,841	\$ 286,372
Insurance premiums received			0	3,709
Investment income – Net (Note 8)	\$ 2,802	142,965	145,767	256,935
TOTAL REVENUES	\$ 2,802	\$1,108,806	\$1,111,608	\$ 547,016
EXPENSES:				
Policyholder benefit claims		\$1,289,267	\$1,289,267	\$ (951)
Assumption reinsurance		422,631	422,631	389,355
Assessments by NOLHGA for expenses	\$ 9,431	51,840	61,271	64,544
Administration & legal fees, & direct expenses	38,312	14,527	52,839	43,208
Dues to National (NOLHGA)	34,440		34,440	33,091
Meetings and travel expenses	5,543		5,543	1,390
Auditing and accounting fees	4,080		4,080	4,560
Bookkeeping fees	1,428		1,428	1,995
Subscriptions and publications	1,219		1,219	1,007
Teleconferences	474		474	320
Computer services and expenses	353		353	620
Printing, postage, supplies, miscellaneous	224		224	65
Class A general and administration expenses allocated to Classes B and C (Note 9)	(95,504)	95,504	0	0
TOTAL EXPENSES	\$ 0	\$1,873,769	\$1,873,769	\$ 539,204
REVENUES OVER (UNDER) EXPENSES	\$ 2,802	\$ (764,963)	\$ (762,161)	\$ 7,812
Decrease (increase) in estimated claims payable		1,587,748	1,587,748	(1,797,748)
INCREASE (DECREASE) IN NET ASSETS	\$ 2,802	\$ 822,785	\$ 825,587	\$(1,789,936)
NET ASSETS – BEGINNING OF YEAR	191,544	3,971,291	4,162,835	5,952,771
NET ASSETS – END OF YEAR	\$194,346	\$4,794,076	\$4,988,422	\$4,162,835

See accompanying notes to financial statements.

CLASSES B AND C NET ASSETS – STATEMENTS OF ACTIVITIES

	Balance 12/31/03	1/1 – 12/31/04 Revenues	Expenses	Balance 12/31/04
Class C7 – First Columbia Life, LA	\$ (11,948)			
Interest expense		\$ (197)		
Administration & legal fees, & direct expenses			\$ 400	
Allocated general & administration expenses			2,655	
Other legal			135	\$ (15,335)
Class C11 – Knickerbocker Life, TX	57,261			
Investment income		838		58,099
Class C13 – Life of Indiana	27,829			
Investment income		407		28,236
Class C 20 – Executive Life, CA	(5,580,475)			
Estate distribution		23,344		
Interest expense		(26,310)		
Policyholder benefit claims			320,000	
Assumption reinsurance			422,631	
Assessments by NOLHGA for expenses			30,301	
Administration & legal fees, & direct expenses			3,863	
Allocated general & administration expenses			25,634	
Estimated claims payable decrease			(511,000)	(5,874,870)
Class C 21 – Mutual Security Life, IN	5,795,962			
Estate distribution		24,587		
Investment income		85,074		
Assessments by NOLHGA for expenses			263	5,905,360
Class C25 – Midwest Life, LA	623,540			
Investment income		9,121		
Administration & legal fees, & direct expenses			18	
Allocated general & administration expenses			119	632,524
Class C26 – Guaranty Security Life, FL	2,235,836			
Estate distributions		200,743		
Investment income		33,290		
Assessments by NOLHGA for expenses			213	
Administration & legal fees, & direct expenses			48	
Allocated general & administration expenses			318	2,469,290

(Continued)

CLASSES B AND C NET ASSETS – STATEMENTS OF ACTIVITIES

	Balance 12/31/03	1/1 – 12/31/04 Revenues	Expenses	Balance 12/31/04
Class C27 – Mutual Benefit Life, NJ	\$ 271,436			
Estate distribution		\$ 907		
Investment income		3,971		
Administration & legal fees, & direct expenses			\$ 69	
Allocated general & administration expenses			459	\$ 275,786
Class C29 – Inter-American Insurance, IL	604,351			
Investment income		8,838		
Assessments by NOLHGA for expenses			371	612,818
Class C30 – Andrew Jackson Life, MS	(2,034)			
Interest expense		(30)		(2,064)
Class C31 – Great Republic Life, CA	(2,497)			
Interest expense		(36)		(2,533)
Class C32 – Old Faithful Life, WY	101,609			
Investment income		1,486		103,095
Class C33 – Old Colony Life, GA	325,929			
Investment income		4,768		330,697
Class C34 – New Jersey Life	55,385			
Investment income		810		56,195
Class C36 – Pacific Standard Life, CA	(13)			(13)
Class C37 – Kentucky Central Life	886,255			
Estate distribution		144,451		
Investment income		13,790		
Assessments by NOLHGA for expenses			1,387	
Administration & legal fees, & direct expenses			144	
Allocated general & administration expenses			956	1,042,009
Class C38 – Consumers United, DE	(146,499)			
Estate distribution		10,016		
Interest expense		(2,119)		
Assessments by NOLHGA for expenses			106	
Administration & legal fees, & direct expenses			112	
Allocated general & administration expenses			742	(139,562)

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CLASSES B AND C NET ASSETS – STATEMENTS OF ACTIVITIES

	Balance 12/31/03	1/1 – 12/31/04 Revenues	Expenses	Balance 12/31/04
Class C40 – American Integrity, PA	\$ 897,854			
Investment income		\$ 13,134		\$ 910,988
Class C41 – National Heritage, DE	(103,691)			
Interest expense		(1,525)		
Assessments by NOLHGA for expenses			\$ 1,047	
Administration & legal fees, & direct expenses			12	
Allocated general & administration expenses			80	(106,355)
Class C42 – Summit National Life, PA	171,777			
Investment income		2,513		
Assessments by NOLHGA for expenses			14	174,276
Class C43 – Confederation Life, MI	(6,852)			
Estate distributions		280		
Interest expense		(100)		
Assessments by NOLHGA for expenses			7	(6,679)
Class C45 – National American, PA	147,786			
Estate distributions		203,347		
Investment income		2,755		
Assessments by NOLHGA for expenses			35	
Administration & legal fees, & direct expenses			57	
Allocated general & administration expenses			378	353,418
Class C 49 – First National Life, AL	(1,210)			
Interest expense		(18)		
Administration & legal fees, & direct expenses			12	
Allocated general & administration expenses			80	(1,320)
Class C52 – American Standard Life, OK	(84,314)			
Estate distributions		9,363		
Interest expense		(1,187)		
Assessments by NOLHGA for expenses			80	
Administration & legal fees, & direct expenses			138	
Allocated general & administration expenses			919	(77,275)
Class C53 – Professional Benefits, TX	(3,277)			
Interest expense		(48)		(3,325)

(Continued)

CLASSES B AND C NET ASSETS – STATEMENTS OF ACTIVITIES

	Balance 12/31/03	1/1 – 12/31/04 Revenues	Expenses	Balance 12/31/04
Class C54 – Centennial Life, KS	\$ (86,202)			
Interest expense		\$ (1,263)		
Assessments by NOLHGA for expenses			\$ 11	
Administration & legal fees, & direct expenses			18	
Allocated general & administration expenses			119	\$ (87,613)
Class C55 – Universe Life – ID	(289,450)			
Interest expense		(4,235)		
Assessments by NOLHGA for expenses			65	(293,750)
Class C56 – Fidelity Bankers Life, VA	(497,657)			
Interest expense		(7,281)		
Assessments by NOLHGA for expenses			50	(504,988)
Class C57 – Statesman National Life, TX	(8,642)			
Estate distribution		2,994		
Interest expense		(95)		
Assessments by NOLHGA for expenses			2	
Administration & legal fees, & direct expenses			48	
Allocated general & administration expenses			320	(6,113)
Class C60 – First National Life Ins. Co. of America, MS (Thunor)	(316,932)			
Estate distribution		19,418		
Interest expense		(4,594)		
Policyholder benefit claims			333	
Assessments by NOLHGA for expenses			280	
Administration & legal fees, & direct expenses			129	
Allocated general & administration expenses			859	(303,709)
Class C61 – International Financial Services Life, MO (Thunor)	(8,419)			
Interest expense		(125)		
Administration & legal fees, & direct expenses			36	
Allocated general & administration expenses			239	(8,819)
Class C62 – National Affiliated Investor Life, LA	(17,570)			
Interest expense		(257)		
Assessments by NOLHGA for expenses			36	(17,863)

(Continued)

CLASSES B AND C NET ASSETS – STATEMENTS OF ACTIVITIES

	Balance 12/31/03	1/1 – 12/31/04 Revenues	Expenses	Balance 12/31/04
Class C63 – American Chambers Life, OH	\$(1,405,084)			
Interest expense		\$ (20,576)		
Assessments by NOLHGA for expenses			\$ 1,206	
Administration & legal fees, & direct expenses			156	
Allocated general & administration expenses			1,036	\$(1,428,058)
Class C64 – Bankers Commercial Life, TX	(31,327)			
Estate distribution		3,166		
Interest expense		(423)		
Assessments by NOLHGA for expenses			39	
Administration & legal fees, & direct expenses			12	
Allocated general & administration expenses			80	(28,715)
Class C65 – Reliance Insurance Co., PA	(13,002)			
Estate distribution		6,422		
Interest expense		(131)		
Assessments by NOLHGA for expenses			4	
Administration & legal fees, & direct expenses			210	
Allocated general & administration expenses			1,392	(8,317)
Class B66 – Legion & Villanova Insurance Cos., PA	(5,413)			
Interest expense		(86)		
Administration & legal fees, & direct expenses			102	
Allocated general & administration expenses			677	(6,278)
Class B67 – London Pacific Life, NC	(2,047,738)			
Estate distribution		316,803		
Interest expense		(2,870)		
Policyholder benefit claims			968,933	
Assessments by NOLHGA for expenses			16,323	
Administration & legal fees, & direct expenses			8,807	
Allocated general & administration expenses			58,444	
Estimated claims payable decrease			(1,076,748)	(1,709,564)

(Continued)

CLASSES B AND C NET ASSETS – STATEMENTS OF ACTIVITIES

	<u>Balance</u> <u>12/31/03</u>	<u>1/1 – 12/31/04</u> <u>Revenues</u> <u>Expenses</u>	<u>Balance</u> <u>12/31/04</u>
Class B Contingency Reserve – Life Investment income	\$1,128,129	\$ 16,503	\$ 1,144,632
Class B Contingency Reserve – Health Investment income	<u>1,310,598</u>	<u>19,173</u>	<u>1,329,771</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$3,971,291</u>	<u>\$1,108,806</u> <u>\$ 286,021</u>	<u>\$4,794,076</u>
Per Exhibit B:			
Total expenses		\$1,873,769	
Decrease in estimated claims payable		(1,587,748)	
		<u>\$ 286,021</u>	

STATEMENTS OF CASH FLOWS (Notes 1 and 2)

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES:		
Increase (decrease) in net assets per Exhibit B	\$ 825,587	\$(1,789,936)
Adjustments to reconcile increase in net assets with net cash from operating activities:		
Realized net (gain) loss from sale of investments	(41,036)	16,024
Unrealized market loss on investments	327,893	164,516
(Increase) decrease in accrued interest receivable	(8,149)	10,013
Increase (decrease) in accounts payable	225	(6,388)
Increase (decrease) in estimated claims payable	<u>(1,587,748)</u>	<u>1,797,748</u>
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	\$ <u>(483,228)</u>	\$ <u>191,977</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	\$ 1,815,714	\$ 1,800,000
Purchase of investments	<u>(1,729,506)</u>	<u>(2,294,399)</u>
NET CASH FROM (USED FOR) INVESTING ACTIVITIES	\$ <u>86,208</u>	\$ <u>(494,399)</u>
CASH AND MONEY MARKET FUND:		
Decrease during year	\$ (397,020)	\$ (302,422)
Balance at beginning of year	<u>817,331</u>	<u>1,119,753</u>
Balance at end of year	\$ <u>420,311</u>	\$ <u>817,331</u>
Balance at end of year	<u>12/31/04</u>	<u>12/31/03</u>
Cash in checking account	\$ 376,977	\$ 151,437
Cash in money market fund	<u>43,334</u>	<u>665,894</u>
	\$ <u>420,311</u>	\$ <u>817,331</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION

Nebraska Life and Health Insurance Guaranty Association is a nonprofit, unincorporated association organized and established by the Nebraska Life and Health Insurance Guaranty Act, Sections 44-2701 through 2720, R.S. Supp. 1975, which provides for the creation of an association of member insurers to enable the guaranty of payment of benefits and the continuance of coverage of life insurance policies, health insurance policies, annuity contracts and supplemental contracts. Any insurer licensed to issue life and health insurance policies, and annuity and supplemental contracts in the State of Nebraska is required to be a member.

Association members may be assessed for assessments as follows:

Class A – Assessments for administration expenses of the Association.

Class B – Assessments to cover insurance benefit claims and expenses of domestic (Nebraska) and foreign (other than Nebraska) insurance companies with policyholders in Nebraska that are declared insolvent by the State Department of Insurance.

~~Effective September 1, 2001, Class C assessments were eliminated by amendment of Nebraska Revised Statute Section 44-2708. Therefore, both domestic and foreign insolvencies are now funded by Class B assessments.~~

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Separate accounts are maintained by type of assessments and by insurers. Interest income and gains or losses on investments are allocated to the respective accounts based on the average quarterly balances of each respective account. Accounts with average positive balances are credited with their allocable share of investment income, and accounts with average negative balances are charged with interest expense on their average deficit balance.

Class A general and administrative expenses are allocated to Class B and Class C insolvencies based on time spent by administrative personnel on the specific insolvencies.

Cash in the checking account and the cash in the money market fund are maintained at high-quality financial institutions. Management believes the Association is not exposed to any significant credit risk on the cash in the checking account and cash in the money market fund.

Investments in debt securities are measured at fair value in the statements of financial position. Unrealized gains or losses are included in the statements of activities. Fair value is based on quoted market prices.

Financial instruments that potentially expose the Association to concentrations of credit and market risk consist primarily of investments. The Association's investments do not represent significant concentrations of credit risk. Financial instruments are not held for trading purposes.

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NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The cost of equipment is capitalized and depreciated over five to seven years by the straight-line method.

The Association is a nonprofit, unincorporated entity of the State of Nebraska, and therefore, no income tax returns or return of organization exempt from income tax are required to be filed.

NOTE 3 – U. S. TREASURY NOTES

U. S. Treasury Notes owned as of December 31, 2004, were as follows:

<u>Date Purchased</u>	<u>Quantity</u>	<u>Purchase Cost</u>	<u>Market Value</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
U. S. Treasury Notes:					
10/14/04	\$ 500,000	\$ 499,902	\$ 499,920	1/31/05	1.625%
9/05/01	700,000	733,223	717,941	11/15/05	5.750%
3/19/02	1,000,000	1,000,156	1,023,050	5/15/06	4.625%
2/03/03	1,000,000	999,687	993,830	11/15/07	3.000%
	<u>\$3,200,000</u>	<u>\$3,232,968</u>	<u>\$3,234,741</u>		

NOTE 4 – U. S. GOVERNMENT AGENCY BONDS

U. S. Government Agency bonds owned as of December 31, 2004, were as follows:

<u>Date Purchased</u>	<u>Quantity</u>	<u>Purchase Cost</u>	<u>Market Value</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
Federal Farm Credit Banks:					
10/02/02	\$ 250,000	\$ 272,205	\$ 254,750	9/01/05	5.750%
Federal Home Loan Banks:					
9/27/02	250,000	263,225	257,423	5/21/07	4.650%
10/10/02	250,000	271,105	256,015	1/20/06	5.370%
10/10/02	250,000	259,985	253,047	5/30/06	4.015%
9/22/03	300,000	323,935	318,375	11/10/08	5.385%
11/17/03	300,000	319,200	313,875	10/14/08	4.925%
1/27/04	300,000	333,354	325,782	3/16/09	5.950%
Federal Home Loan Mortgage Corp.:					
3/18/02	550,000	577,087	582,312	12/13/06	6.400%
3/18/02	450,000	476,892	479,813	1/05/07	6.700%
Federal National Mortgage Association:					
10/15/02	500,000	547,290	508,440	6/10/05	6.350%
10/20/04	300,000	309,681	306,000	10/15/06	4.375%
5/18/04	300,000	287,724	294,189	2/15/09	3.250%
	<u>\$4,000,000</u>	<u>\$4,241,683</u>	<u>\$4,150,021</u>		

NOTES TO FINANCIAL STATEMENTS

NOTE 5 – CORPORATE BONDS

Corporate bonds owned as of December 31, 2004, were as follows:

<u>Date Purchased</u>	<u>Quantity</u>	<u>Purchase Cost</u>	<u>Market Value</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
Abbot Laboratories Notes:					
1/14/03	\$ 300,000	\$ 334,368	\$ 320,676	3/15/08	6.000%
Eli Lilly & Co. Global Notes:					
12/17/02	300,000	324,389	309,867	7/15/06	5.500%
Fifth Third Bank Cincinnati OH Notes:					
10/19/04	300,000	298,845	295,440	1/30/07	2.700%
General Electric Capital Corp. Notes:					
10/11/02	300,000	312,753	310,116	6/15/07	5.000%
Procter & Gamble Co. Notes:					
4/15/03	300,000	317,208	307,617	8/15/08	4.300%
Wal-Mart Stores, Inc. Notes:					
10/11/02	300,000	315,402	301,908	6/15/05	4.150%
	<u>\$1,800,000</u>	<u>\$1,902,965</u>	<u>\$1,845,624</u>		

NOTE 6 – ESTIMATED CLAIMS PAYABLE AS OF DECEMBER 31, 2004 AND 2003

<u>Insolvency</u>	<u>12/31/04</u>	<u>12/31/03</u>
Class C20 – Executive Life, CA	\$3,800,000	\$4,311,000
Class B67 – London Pacific Life, NC	950,000	2,026,748
	<u>\$4,750,000</u>	<u>\$6,337,748</u>

NOTE 7 – CONTINGENCY RESERVE FOR FUTURE OBLIGATIONS

On April 8, 1999, the Board of Directors approved that net asset balances held for certain settled insolvencies be transferred to a contingency reserve for future Class B obligations of the Nebraska Life and Health Insurance Guaranty Association.

Exhibit B-1 (Page 10) presents an accounting of the Class B contingency reserves for the year 2004. The net asset balances of the contingency reserves were as follows:

	<u>12/31/04</u>	<u>12/31/03</u>
Contingency reserve for future obligations – Life	\$1,144,632	\$1,128,129
Contingency reserve for future obligations – Health	1,329,771	1,310,598
	<u>\$2,474,403</u>	<u>\$2,438,727</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 8 – INVESTMENT INCOME – NET	<u>2004</u>	<u>2003</u>
Dividends received on money market funds	\$ 5,719	\$ 6,190
Interest earned on debt securities	436,790	441,574
Realized net gain (loss) from sale of debt securities	41,036	(16,024)
Unrealized market loss	(327,892)	(164,516)
Investment management fees	<u>(9,886)</u>	<u>(10,289)</u>
	<u>\$145,767</u>	<u>\$256,935</u>

NOTE 9 – CLASS A GENERAL AND ADMINISTRATIVE EXPENSES ALLOCATED TO
CLASSES B AND C

Class A general and administrative expenses were allocated to Classes B and C insolvencies based on time spent by administrative personnel on the specific insolvencies. This procedure is in accordance with accounting guidelines recommended by the National Organization of Life and Health Insurance Guaranty Associations:

Time spent was determined by the administration and legal fees paid to the Cline, Williams Law Firm, who perform the administration of the Nebraska Life and Health Insurance Guaranty Association. The Cline, Williams Law Firm submits monthly billings for their services for each insolvency.